

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name DICKINSON COUNTY LIBRARY	County DICKINSON
Fiscal Year End 12/31/06	Opinion Date 06/08/2007	Date Audit Report Submitted to State 6/22/07	

We affirm that:

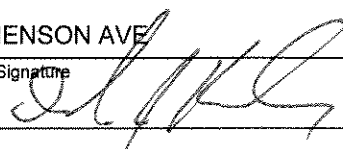
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) FLEURY SINGLER & CO PC CPA'S		Telephone Number (906)774-0833	
Street Address 301 STEPHENSON AVE		City IRON MOUNTAIN	State MI
Zip 49801			
Authorizing CPA Signature 	Printed Name DAVID J KNOKE		License Number MI 1101010481

June 8, 2007

Board of Trustees
Dickinson County Library
Iron Mountain, MI

In planning and performing our audit of the financial statements of the Dickinson County Library for the year ended December 31, 2006, we considered the Library's internal control structure to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our audit noted that the Library had a sound internal control system with regard to the safekeeping of assets and reporting of revenues and expenditures. Problem areas identified in our previous audit have been satisfactorily addressed by the Board, and no additional problems with regard to internal control were noted in these areas for the year ended December 31, 2006.

New Accounting Standards Effective For Current Audit

During the year, SAS 112 - "Communicating Internal Control Related Matters Identified in an Audit" became effective. This standard requires us to communicate all significant deficiencies and material weakness noted during the audit in writing to the governing board.

During the year under audit, we did find one weakness in financial reporting. The Library staff does not have the necessary accounting background to make the adjustments necessary to prepare the financial statements in compliance with the requirements established by GASB 34. Due to the complexity of GASB 34, the auditors have assisted the Library's staff with these adjustments and they have been properly included in the final Audited Financial Statements of the Dickinson County Library for the year ended December 31, 2006.

The Library's financial statements as prepared by their staff and internal control structures are sound, therefore, we do not believe that the lack of expertise required to make the GASB 34 adjustments constitutes a significant deficiency or material weakness as defined in SAS 112. We do feel, however, that it is appropriate to bring this deficiency to the attention of Library management as internal control is somewhat affected by the inability to prepare financial statements in accordance with the current standard as set by the Governmental Accounting Standards Board.

New Accounting Standards to Be Required In Subsequent Audits

The Dickinson County Library has not yet adopted GASB 43 - "Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans" or GASB 45 - "Accounting and Financial Reporting By Employers For Postemployment Benefits Other Than Pensions", but will be required to have an adequate plan in place to implement GASB 43 before the year ended December 31, 2008 and GASB 45 by the year ended December 31, 2009. These standards may require the Library to obtain actuarially determined liability calculations with regard to recording post retirement health insurance obligations. We suggest you consult with Dickinson County to see how they are addressing this issue or seek advice from another qualified professional to assist you in the implementation of these standards.

We wish to acknowledge the excellent cooperation we received from the staff of the Dickinson County Library. If you have any questions or concerns, please feel free to contact us.

Very truly yours,

A handwritten signature in cursive script, reading "Flannery Singh Hargrove, P.C.", written in dark ink.

Certified Public Accountants

DICKINSON COUNTY LIBRARY

FINANCIAL REPORT

December 31, 2006

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dickinson County Library
Iron Mountain, Michigan

We have audited the accompanying financial statements of the **DICKINSON COUNTY LIBRARY** (a component unit of the County of Dickinson) as of December 31, 2006 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the **DICKINSON COUNTY LIBRARY'S** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **DICKINSON COUNTY LIBRARY** at December 31, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



Certified Public Accountants

June 8, 2007

DICKINSON COUNTY LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The Basic Financial Statements include information that presents two different views of the Library.

- The first two columns of the financial statements include information on the Library's General and Endowment Funds under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The last column presents the Library's operations on a full accrual basis which provides both long and short-term information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library on a longer-term view of the Library's finances.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows key financial information under the full accrual method in a condensed format. The amounts and totals are for all library activities, including the endowment fund.

	<u>2006</u>	<u>2005</u>
Current assets	\$ 1,550,241	\$ 1,344,808
Capital assets	709,449	728,764
Long-term assets	<u>117,943</u>	<u>105,492</u>
Total assets	2,377,633	2,179,064
Long-term liabilities	544,160	569,138
Other liabilities	<u>763,801</u>	<u>734,407</u>
Total liabilities	1,307,961	1,303,545
Net Assets		
Invested in capital assets	709,449	728,764
Restricted for donor restricted purposes	116,463	105,812
Unrestricted	<u>243,760</u>	<u>40,943</u>
Total net assets	<u>\$ 1,069,672</u>	<u>\$ 875,519</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Information (Continued)

Revenue			
Property taxes	\$	666,903	\$ 647,050
Penal fine revenues		265,866	171,060
Contributions		35,806	28,535
Other		<u>98,483</u>	<u>89,740</u>
Total revenue		1,067,058	936,385
 Expenses - Library services		 <u>872,905</u>	 <u>817,252</u>
 Change in net assets	 \$	 <u>194,153</u>	 <u>\$ 119,133</u>

The Library as a Whole

- The Library's revenues increased by \$130,673 this year. The primary reason for the increase was an increase of \$94,806 awarded to the Library in penal fines from the court system.
- The Library's primary source of revenue is from property taxes. For 2006, total property tax collections were \$666,903. This represents approximately 63 percent of total revenue.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For 2006, this expenditure was \$573,875, representing 66 percent of the Library's total expenditures.
- Depreciation at \$110,368 is the second largest overall expenditure of the Library, representing 13 percent of the Library's total expenditures.
- Total expenditures for the entire year under the full accrual method of accounting were \$872,905.

The Library's Funds

Our analysis of the Library's General and Endowment Funds are included on pages 7 and 8 in the respective statements. The fund columns provide detailed information about the Funds on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources.

The fund balance of the General Fund increased by \$173,134 for the year. This represents unspent revenue greater than expenses. The Endowment Fund increased by \$14,441.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in the following areas:

One major change in the revenue budget was made during 2006. The revenue budget was increased \$115,000 due to a change in the timing for distributing penal fine revenue between the county and the Library made during 2006. Prior to this change, penal fines were held by the county until the end of the county's fiscal year and then distributed to the Library. They are now being distributed on a monthly basis. Because both procedures took place during 2006, the Library effectively received 18 months of penal fines during 2006 and, therefore, revenues were much higher than expected.

The only significant change in budgeted expenditures in 2006 was an increase of \$75,000 in the capital outlay budget. The increase in the budget was made to allot funds required for several major projects that were bid on in 2006, but not completed until 2007. These projects included a new boiler system, new air conditioning unit, carpeting and tile replacement at the Main Library.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Library Budgetary Highlights (Continued)

Other notable changes in the expenditures budget were in salaries and benefits which were modestly increased due to negotiated wage increases as well as the State of Michigan minimum wage increase. Health insurance cost increases were also a factor that contributed to this increase.

Increases in the maintenance budget were due to the use of a professional cleaning service used during the year which was required due to a prolonged illness of an hourly employee who previously performed Library maintenance duties, and the furniture and equipment budget was increased due to larger than expected purchases of furniture for the Library.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$709,449 invested in buildings, furniture and equipment, and books and materials. In 2006, the Library added approximately \$78,830 in new items consisting of books, various audio/visual materials, and enhancement of the music collection. The remaining capital asset additions consisted of \$11,608 in equipment for the Main Library and \$615 in building and grounds improvement. The Library disposed of several fully depreciated computers with an original cost of \$8,456 in conjunction with a planned computer upgrade and \$18,093 of fully-depreciated obsolete books as part of an ongoing policy of weeding out obsolete or damaged Library materials.

The Library carries no long-term debt other than compensated absences and post-retirement benefits.

Millage Rate

In August of 2004, the voters of the district approved a .9 mill tax for a five-year period. Based on the current taxable value of property in the Library's district, this will generate approximately \$700,000 in tax revenue for the year ending December 31, 2007.

DICKINSON COUNTY LIBRARY**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**

December 31, 2006

	Individual Library Funds		
	General Fund - Modified Accrual Basis	Endowment - Permanent Fund	Total - Modified Accrual Basis
Assets			
Cash	\$ 836,262	\$ 6,017	\$ 842,279
Taxes receivable	700,000	-	700,000
Prepaid rent	1,667	-	1,667
Prepaid insurance	6,295	-	6,295
Investments	-	117,943	117,943
Capital assets	-	-	-
Total assets	1,544,224	123,960	1,668,184
Liabilities			
Accounts payable	27,193	-	27,193
Accrued liabilities	7,790	-	7,790
Deferred revenue	700,000	-	700,000
Vested sick leave, vacation and comp time payable	-	-	-
Post-retirement benefits	-	-	-
Due within one year	-	-	-
Due after one year	-	-	-
Total liabilities	734,983	-	734,983
Fund Balance/Net Assets			
Fund balance			
Reserved for			
Temporarily restricted endowment funds	-	10,127	10,127
Permanently restricted endowment funds	-	91,446	91,446
Computer purchases	14,890	-	14,890
Designated for			
Post-retirement benefits	116,756	-	116,756
Vested sick leave, vacation and comp time	15,093	-	15,093
Building improvements	130,000	-	130,000
Operating expenses	375,000	-	375,000
Unreserved - undesignated	157,502	22,387	179,889
Total fund balance	809,241	123,960	933,201
Total liabilities and fund balance	\$ 1,544,224		
Net assets			
Investment in capital assets			
Restricted for donor restricted purposes			
Unrestricted			
Total net assets			

The notes to financial statements are an integral part of this statement.

GASB No. 34 Adjustments (Note H)	Library as a Whole	
	Statement of Net Assets - Full Accrual Basis	
\$ -	\$	842,279
-		700,000
-		1,667
-		6,295
-		117,943
709,449		709,449
709,449		2,377,633
-		27,193
-		7,790
-		700,000
16,592		16,592
28,818		28,818
527,568		527,568
572,978		1,307,961
(10,127)	-	
(91,446)	-	
(14,890)	-	
(116,756)	-	
(15,093)	-	
(130,000)	-	
(375,000)	-	
(179,889)	-	
(933,201)	-	
709,449	709,449	
116,463	116,463	
243,760	243,760	
\$ 1,069,672	\$ 1,069,672	

DICKINSON COUNTY LIBRARY**STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE - STATEMENT OF ACTIVITIES**

Year ended December 31, 2006

	Individual Library Funds		
	General Fund - Modified Accrual Basis	Endowment - Permanent Fund	Total - Modified Accrual Basis
Revenue			
Property taxes	\$ 666,903	\$ -	\$ 666,903
Other taxes	9,584	-	9,584
State aid	23,338	-	23,338
Penal fines	265,866	-	265,866
Charges for services	12,646	-	12,646
Interest income	38,764	3,728	42,492
Donations	24,706	11,100	35,806
Other revenue	10,423	-	10,423
Total revenue	1,052,230	14,828	1,067,058
Expenditures			
Salaries and benefits	599,768	-	599,768
Materials	101,058	-	101,058
Office and library supplies	9,821	-	9,821
Postage and delivery	4,352	-	4,352
Conferences, workshops and travel	3,860	-	3,860
Mid-Peninsula state aid	9,922	-	9,922
Maintenance and utilities	61,505	-	61,505
Insurance	23,792	-	23,792
Computer services	34,493	-	34,493
North Dickinson Branch	2,811	-	2,811
Professional services	6,897	-	6,897
Programming	7,617	-	7,617
Equipment and furniture	6,656	-	6,656
Other equipment costs	5,614	-	5,614
Miscellaneous	1,317	-	1,317
Depreciation	-	-	-
Total expenditures	879,483	-	879,483
Excess of revenue over expenditures	172,747	14,828	187,575
Other financing sources (uses) operating transfers in (out)	387	(387)	-
Excess of revenues and other financing sources over expenditures and other uses/change in net assets	173,134	14,441	187,575
Fund balance/net assets - Beginning of year	636,107	109,519	745,626
Fund balance/net assets - End of year	\$ 809,241	\$ 123,960	\$ 933,201

The notes to financial statements are an integral part of this statement.

GASB No. 34 Adjustments (Note H)	Library as a Whole Statement of Net Assets - Full Accrual Basis
\$ -	\$ 666,903
-	9,584
-	23,338
-	265,866
-	12,646
-	42,492
-	35,806
-	10,423
-	1,067,058
(25,893)	573,875
(78,830)	22,228
-	9,821
-	4,352
-	3,860
-	9,922
(615)	60,890
-	23,792
(6,827)	27,666
-	2,811
-	6,897
-	7,617
(4,781)	1,875
-	5,614
-	1,317
110,368	110,368
(6,578)	872,905
(6,578)	194,153
-	-
6,578	194,153
129,893	875,519
\$ 136,471	\$ 1,069,672

DICKINSON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the **DICKINSON COUNTY LIBRARY** conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Reporting Entity

The **DICKINSON COUNTY LIBRARY** was formed to provide reading and related materials to residents of Dickinson County, Michigan. It currently operates in three locations, a main library and two smaller branches. The main location is in Iron Mountain, Michigan and the branches are located in Norway, Michigan and in the North Dickinson School building in Felch, Michigan. The Library is a part of the County of Dickinson and the majority of its revenues are deposited with the County Treasurer. The Library is governed by a Board of Trustees who oversees its operations. The Library Board is appointed by the Dickinson County Board of Commissioners. There are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The General and Endowment Funds are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period by the county treasurer. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and post retirement benefits are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for 2007 expenditures.

In addition to presenting modified accrual information, the statements combine all activities and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Library reports the following major governmental funds:

General Fund - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Endowment Fund - The Endowment Fund is considered a permanent fund of the Library. It accounts for gifts and donations given to the Library. The majority of these items are restricted for specific purposes by the donor. Most of these donations become permanent endowments. The investment income generated by these funds is used to make purchases for the Library in accordance with the donors' wishes.

In September of 2006, one donation of \$10,000 was received which was temporarily rather than permanently restricted by the donor. This donation is to be used to purchase furnishings for the children's room at the Library. The donor has stipulated that these funds be invested for one year before they are expended.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Financial Statement Amounts

Cash - Cash includes cash on hand, demand deposits, savings, and money market accounts.

Taxes Receivable - All property taxes receivable are shown net of an allowance for uncollectible amounts of \$1,000. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1 of the following year. The Library's 2006 tax is collectible on February 14, 2007, and will be recognized as revenue in the year ended December 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

Prepaid Expenses - The prepaid expenses reported on the balance sheet represent payments made in advance for 2007 expenditures.

Investments - Investments are reported at cost, which approximates fair value. Investments consist entirely of certificates of deposit in the Endowment Fund (see Note B).

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and improvements	10-50 years
Furniture and equipment	5-10 years
Library books and AV materials	3-7 years

The Library has a collection of artwork and artifacts, donated by area patrons, presented for public exhibition and education that is being preserved for future generations. The Library has no plans to dispose of this collection. The collection is not capitalized or depreciated as part of capital assets.

Compensated Absences (Vacation and Sick Leave) - Included in the employment agreement for the Library's personnel are allowances for sick leave and vacation. Each employee earns sick leave at the rate of one day per month with 120 days maximum accumulation. Upon retirement under the Michigan Employees Retirement System (MERS), each vested employee receives compensation equal to ½ of the unused sick leave up to a maximum of 100 days. Such payout may be taken as cash or time off at the option of the employee. Vacation pay is earned at amounts scheduled in the agreement with a maximum accumulation from the previous year of 7 days. Comp time is earned by employees who have worked overtime and have chosen to receive additional time off rather than overtime pay. All terminated employees are entitled to compensation for unused vacation and comp time. All vacation, sick, and comp time payable has been accrued and reported as a liability in the General Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Financial Statement Amounts (Continued)

Deferred Revenue - Income is recognized as it is measurable and available. Payments received by the local taxing authorities for taxes levied for 2006 and collected within 60 days of the end of fiscal 2006 by the local taxing authorities, but not made available to the Library until April of 2007 are considered deferred revenue as they are not yet remitted to the county and were not paid to the Library within 60 days of the end of the fiscal year.

The 2006 taxable valuation of the property subject to the Library's millage totaled approximately \$825 million, on which ad valorem taxes levied consisted of .9 mills for the Library's operating purposes. The ad valorem taxes will raise approximately \$700,000 (after tax incremental financing authority portion) for operations and are included in the financial statements as deferred revenue.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties to use for a specific purpose. It is the Library's policy to use restricted resources in the General and Endowment Funds first when qualifying expenditures are incurred. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from those estimates. Significant estimates include depreciation expense, and interest rate and life expectancy assumptions for the value of retirees' health benefits.

Other Revenues - Approximately 25% of the Library revenues are the result of penal fines imposed by the district, circuit, and probate courts. The fines are imposed at the discretion of the sentencing judge and are therefore difficult to project. Because of this, the Library is typically conservative with respect to the budgeting of these revenues so as not to become economically dependent on them.

NOTE B - DEPOSITS/INVESTMENTS

Michigan compiled law section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of the purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library's cash and investment accounts at December 31, 2006 total \$960,222. Of that amount, \$ 301,631 was covered by federal depository insurance and \$658,591 was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits funds with and assesses the level of risk of each institution. Only those institutions with an acceptable risk level are used as depositories.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CAPITAL ASSETS

A summary of the changes in capital assets follows:

Capital Assets Being Depreciated	Balance January 1, 2006	Additions	(Deletions)	Balance December 31, 2006
Assets not being depreciated				
Land	\$ 48,496	\$ -	\$ -	\$ 48,496
Other capital assets				
Buildings and improvements	606,837	615	-	607,452
Furniture and equipment	236,798	11,608	(8,456)	239,950
Library books and materials	609,137	78,830	(18,093)	669,874
Totals	1,501,268	91,053	(26,549)	1,565,772
Accumulated depreciation	(772,504)	(110,368)	26,549	(856,323)
Net book value	\$ 728,764	\$ (19,315)	\$ -	\$ 709,449

NOTE D - EMPLOYMENT RELATED DEBT

A summary of debt outstanding at the Library is as follows:

	Balance January 1, 2006	Additions	(Deletions)	Balance December 31, 2006
Compensated absences	\$ 15,093	\$ 2,089	\$ (590)	\$ 16,592
Post-retirement benefits	583,778	23,470	(50,862)	556,386
Totals	\$ 598,871	\$ 25,559	\$ (51,452)	\$ 572,978

The compensated absences represent the estimated liability to be paid employees under the Library's vacation, sick and comp time policies. The Library estimates that new compensated absences time will accrue at a rate approximately equal to that used and, therefore, the outstanding balance at December 31, 2006 represents a long-term liability.

The Library is obligated under its union contract to provide employees who were hired prior to January 1, 1995, and retire under the MERS system health insurance coverage upon their retirement. A liability of \$556,386 has been included in the General Fund liabilities to reflect the present value of the monthly health insurance benefits for the seven currently retired employees and the six active employees whose contracts include post-retirement health coverage. This liability was calculated using current insurance costs, an interest rate of 6.085%, and actuarially determined life expectancy tables.

During the year, one employee voluntarily left employment before reaching the eligibility requirements necessary to retire under the MERS system and, therefore, forfeited the right to receive post-retirement health benefits. The liability for this employee has been removed from the schedule above.

Also during the year, the Board approved post-retirement health insurance benefits for one non-union employee who was hired subsequent to the January 1, 1995 cut-off date. The estimated future liability for these payments has been included in the additions column of the post-retirement benefits line of the schedule.

The total current year expense incurred for payment of post-retiree's health insurance has been included in the salaries and benefits line of the Statement of Activities and was \$32,135.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - EMPLOYMENT RELATED DEBT (CONTINUED)

The Dickinson County Library has not yet adopted GASB 43 (Financial Reporting for Postemployment Benefit Plans Other than Pension Plans) or GASB 45 (Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions) but will be required to have a plan in place to implement GASB 43 before the year ending December 31, 2008 and GASB 45 by the year ending December 31, 2009.

NOTE E - BUDGET INFORMATION

The annual budget is prepared by Library management and adopted by the Library Board of Trustees. Subsequent amendments are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. During the current year, the budget was amended on several occasions, and there were no expenditures in excess of the amounts budgeted.

The General Fund budget has been approved on a functional basis. A comparison of actual results of operations to the General Fund budget as adopted by the Library Board is included in the required supplementary information.

NOTE F - RISK MANAGEMENT

The Library is exposed to various risks related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Library belongs to the Michigan Municipal Risk Management Authority (MMRMA) which is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships, and special purpose governments. The Michigan Municipal Risk Management Authority is a separate legal and administrative entity.

The Library is responsible for paying all losses including damages, loss adjustment expenses and defense costs for each occurrence that falls within the Library self-insured retention (SIR). After the Library has paid the SIR, the MMRMA will be responsible for paying losses including damages, loss adjustment expense and defense costs.

If a covered loss exceeds the MMRMA's limits, all further payments for such loss are the sole obligation of the Library. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Library is the sole obligation of the Library.

NOTE G - DEFINED BENEFIT PENSION PLAN

Plan Description - The Library's defined benefit pension plan provides retirement benefits to plan members. The Plan is affiliated with the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer pension plan administered by Gabriel, Roeder, Smith and Company. Act No. 427 of the Public Acts of 1984, as amended, and the Constitution of the State of Michigan assign the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the Plan, that authority rests with Dickinson County. Gabriel, Roeder, Smith and Company issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Gabriel, Roeder, Smith and Company, One Towne Square, Southfield, Michigan 48076 or by calling (248)799-9000.

Funding Policy - The Library is required to contribute at an actuarially determined rate; the current rate for 2006 was 13.15% of annual covered payroll. The contribution requirements of the Library are established and may be amended by the MERS Board of Trustees.

Actuarial valuations are performed annually. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Memberships of the plan are as follows:

Active members	13
Retirees and beneficiaries currently receiving benefits	7
Terminated plan members entitled to but not yet receiving benefits	<u>2</u>
Total	<u>22</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost - For the year ended December 31, 2006, the Library's annual pension cost of \$42,633 for the Plan was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return (net of administrative expenses) (b) projected salary increases of 4.5% per year, and an additional projected salary increase ranging from 0.0% to 8.40% per year. The actuarial value of the Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2006, was 30 years.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Contributed	Percent of APC Obligation	Net Pension
December 31, 2003	\$ 42,317	\$ 42,317	100%	\$ -
December 31, 2004	50,187	50,187	100%	-
December 31, 2005	46,580	46,580	100%	-

NOTE H - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total fund balance - modified accrual basis	\$ 933,201
Amounts reported in the Statement of Net Assets are different because	
Capital assets are not financial resources, and are not reported in the fund	709,449
Compensated absences are included as a liability	(16,592)
Post-retirement benefits are included as a liability	(556,386)
Net assets of General Fund - full accrual basis	\$ 1,069,672
Net changes in fund balances - modified accrual basis	\$ 187,575
Amounts reported in the Statement of Activities are different because	
Capital outlays are reported as expenditures in the Statement of Revenue, Expenditures, and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation	
Equipment	11,608
Building and land improvements	615
Library books and materials	78,830
Depreciation	(110,368)
Increase in the accrual for compensated absences reported as an expenditure in the Statement of Activities, but not in the fund statement	(1,499)
Decrease in the accrual for post-retirement benefits reported as an expenditure in the Statement of Activities, but not in the fund statement	27,392
Changes in net assets of General Fund - full accrual basis	\$ 194,153

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I - LABOR SUBJECT TO COLLECTIVE BARGAINING AGREEMENT

Most of the Library's employees are members of a local chapter of the American Federation of State, County and Municipal Employees, AFL-CIO. The current contract was approved on September 19, 2006 and will expire on December 31, 2009.

NOTE J - LEASE

Prepaid rent represents the remaining balance of rent paid in advance to the North Dickinson School District for space used for the North Dickinson branch of the Library. The annual rent payment made in October of 2006 was \$2,500. This lease is renewable annually by mutual agreement of both parties.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

DICKINSON COUNTY LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year ended December 31, 2006

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 665,799	\$ 666,900	\$ 666,903	\$ 3
Other taxes	7,901	9,550	9,584	34
State aid	26,900	23,200	23,338	138
Penal fines	150,000	265,000	265,866	866
Charges for services	14,000	12,150	12,646	496
Interest income	35,000	34,400	38,764	4,364
Donations	14,400	20,000	24,706	4,706
Endowment income	3,000	300	387	87
Other revenue	8,000	9,000	10,423	1,423
Total revenue	925,000	1,040,500	1,052,617	12,117
Expenditures				
Salaries and benefits	594,125	606,410	599,768	6,642
Materials	95,800	107,400	101,058	6,342
Office and library supply	9,000	10,000	9,821	179
Postage and delivery	7,500	7,440	4,352	3,088
Conferences, workshops and travel	5,250	5,250	3,860	1,390
Mid-Peninsula state aid	10,850	10,850	9,922	928
Maintenance and utilities	57,500	64,000	61,505	2,495
Insurance	25,000	26,000	23,792	2,208
Computer services	40,407	42,782	34,493	8,289
North Dickinson Branch	4,000	4,000	2,811	1,189
Professional services	8,000	8,000	6,897	1,103
Programming	6,000	7,750	7,617	133
Equipment and furniture	3,500	6,750	6,656	94
Equipment service contracts	5,500	6,300	5,614	686
Miscellaneous	1,500	1,500	1,317	183
Post retirement benefits	4,500	4,500	-	4,500
Capital outlay	45,000	120,000	-	120,000
Contingencies	1,568	1,568	-	1,568
Total expenditures	925,000	1,040,500	879,483	161,017
Revenue over expenditures	-	-	173,134	173,134
Fund Balance -				
Beginning of year	636,107	636,107	636,107	-
Fund Balance -				
End of year	<u>\$ 636,107</u>	<u>\$ 636,107</u>	<u>\$ 809,241</u>	<u>\$ 173,134</u>

DICKINSON COUNTY LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT SYSTEMS SCHEDULE OF FUNDING PROGRESS
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
12/31/01	\$ 1,044,242	\$ 1,191,362	\$ 147,120	88%	\$ 324,087	45%
12/31/02	1,085,103	1,319,348	234,245	82%	306,071	77%
12/31/03	1,167,380	1,412,651	245,271	83%	321,120	76%
12/31/04	1,249,492	1,430,756	181,264	87%	340,137	53%
12/31/05	1,333,645	1,520,675	187,030	88%	298,934	63%

RETIREMENT SYSTEMS SCHEDULE OF EMPLOYER CONTRIBUTIONS
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Year Ended December 31	Annual Required Contribution	Actual Contribution	Percent Contributed
2001	\$ 36,568	\$ 36,568	100%
2002	34,144	34,144	100%
2003	42,317	42,317	100%
2004	50,187	50,187	100%
2005	46,580	46,580	100%

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of December 31, 2005, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases *	4.50%
*includes inflation at	4.50%
Additional salary increases attributable to seniority/merit	0% to 8.40%